Executive Summary

Q3 2025 Economic Commentary

2025 has rewarded disciplined investors so far, as the U.S. and global economies have weathered the tariff storm better than expected. But some cracks are beginning to appear. While overall financial conditions remain roughly balanced relative to history, the Fed's policy stance is restrictive. In other words: the economy is holding up – for now – but the mix of relatively high rates, policy uncertainty and geopolitical friction is starting to leave its mark.

Among the key variables we are keeping an eye on:

- **Inflation.** While U.S. inflation has remained unremarkable, the next round of higher tariffs could nudge inflation upward. What matters most now: long-term inflation expectations, which remain firmly anchored around 2.3%–2.4%.
- **Government debt, bond yields.** Investors appear to be banking on growth—especially productivity gains via AI—to dilute the debt burden, keeping long bond yields in check. What could spook markets: A messy public debate within the Fed over rate policy, or premature speculation about who succeeds Fed Chair Powell (his term ends May 2026).
- **Corporate profits.** U.S. companies have maintained solid profit margins, leveraging the playbooks they put in place to adapt to post-COVID supply disruptions. What could tip the balance: If tariff hikes, tighter labor markets, or slower growth start to squeeze margins—especially since valuations sit near record highs.

Portfolio Positioning

In an environment this complex, discipline and diversification matter more than ever. Global, multi-asset portfolios – calibrated to long-term goals and periodically rebalanced – remain the best defense against noise and the best offense for capturing opportunity. Each "ingredient" in LNW portfolios has unique attributes that in combination with others allow portfolios to navigate through a variety of market environments:

For liquidity and flexibility: Cash has earned its seat at the table. With U.S. equities at all-time highs and valuations stretched, longer-term rates threatening to drift upward even if the Fed cuts, and cash yields competitive with core bonds, maintaining a healthy cash allocation makes sense.

For resilience and balance: Fixed income remains a stabilizer, particularly if equities cool in the second half. Core bonds – both taxable and tax-exempt – continue to provide ballast, while municipal bonds stand out as underappreciated.

For global growth opportunities: Non-U.S. markets are benefiting from coordinated stimulus, a weaker dollar, and a lack of trade-war headwinds – trends that could persist. That said, U.S. equities shouldn't be written off; the ongoing integration of AI could sustain earnings growth beyond what consensus expects.

For inflation hedging & differentiated returns: Real assets remain a strategic component. Infrastructure equities in particular look attractive after valuations reset as government stimulus tapered but the secular support for the asset class persists.

For enhanced diversification: Hedge funds have shown their value at market turning points and during volatility spikes. Private markets offer another lever. Their slower price adjustments relative to public markets could unlock opportunities as dislocations emerge and valuations "catch up."

Expanding the Opportunity Set

We continue to cultivate a robust pipeline of strategies to enhance portfolios – drawing on decades of relationships across global capital markets. We're especially interested in ingredients that are uncorrelated – or minimally correlated – to the rest of the portfolio, and that are well positioned to capitalize on structural shifts, including the rise of AI, blockchain applications and evolving capital market dynamics.

Please read our full *Q3 2025 Commentary* for more detail.